



# **Iris Court Redevelopment Project**

## ***Debt Financing Feasibility Study Draft Report***

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## Contents

<b>Introduction .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Debt Financing.....</b>	<b>3</b>
<b>Existing Capital Needs .....</b>	<b>3</b>
<b>Design Issues .....</b>	<b>6</b>
The Design Charrette .....	7
<b>The Management Charrette .....</b>	<b>7</b>
<b>Redevelopment Options .....</b>	<b>9</b>
Option I – Complete Rehabilitation.....	10
Option II – Modest Redesign (rehabilitation with street-end reconfiguration).....	10
Option III – Major Redesign (rehabilitation with demolition and new housing on corners).....	11
<b>Financial Analysis.....</b>	<b>13</b>
<b>Discussion .....</b>	<b>16</b>
<b>Appendix A</b>	
<b>Site Plan.....</b>	<b>18</b>
<b>Appendix C</b>	
<b>Supplemental Management Improvements.....</b>	<b>20</b>
<b>Appendix D</b>	
<b>Estimate of Market Rents .....</b>	<b>21</b>
<b>Appendix E</b>	
<b>Development Budgets.....</b>	<b>23</b>

*Rendering of Iris Court Redevelopment on cover by HALST Architecture*

# Introduction

Under the Moving to Work (MTW) Demonstration Program, the Housing Authority of Portland (HAP) has been granted significant flexibility to waive existing public housing regulations to better meet local housing needs. In support of that objective, the U.S. Department of Housing and Urban Development (HUD) has provided the HAP with certain technical assistance funds. With these funds, the HAP has requested Abt Associates, Inc. (Abt) to examine the feasibility of using traditional debt financing to undertake the redevelopment of five contiguous properties – Iris Court, Royal Rose Court, Royal Rose Annex, Sumner Court, and Cambridge Court. Together, these five properties, referred hereafter as the Iris Court Redevelopment Project, account for 124 residential units.

To facilitate planning efforts, separate management and design charrettes were held on October 29 and 30, 2001. These charrettes involved local housing management and design professionals. The management session was designed to encourage discussion on management techniques that could reduce costs and improve on-site service delivery. The design session was structured to encourage local architects to modify current spaces to better fit resident needs and the surrounding context.

This document presents Abt's preliminary findings and observations and is intended to assist the HAP in making future planning decisions.

## Background

Iris Court, the largest (54 total units) of the five properties in the cluster, is the oldest and most physically distressed public housing property in Portland. The costs to address Iris Court's existing capital needs – without consideration for redesign – are estimated at around \$2.5 million, or \$46,000/unit. In contrast, the Agency receives around \$5 million annually in public housing modernization funds, of which only about \$3.6 million are available for actual construction activities. Given the relatively modest modernization funding received by the Agency, the idea of finding alternative sources of financing to address capital needs at Iris Court is compelling.

At the same time, because of the high per unit rehab costs for Iris Court, the Agency is also interested in examining the possibility of alternative redevelopment scenarios. In other words, rather than simply fix Iris Court in its “as-is” condition, would it be better to undertake major redesign, including, possibly, demolition and new construction? What would the associated costs be with these more extensive redevelopment schemes and would they be financially feasible? Finally, Iris Court is contiguous to four other HAP-owned properties. Consequently, rather than studying Iris Court in isolation, the Agency has asked Abt to consider these properties within the context of one larger redevelopment effort. The purpose of this document is to respond to these inquiries so that the Agency may narrow its planning options.

Currently, these five properties serve very-low income households with average annual incomes of 0-30% of Adjusted Median Income, which is \$16,750 for a four-person family. The redevelopment scenarios presented here assume that the Agency will continue to serve this same target population.

Table 1 contains basic information on each property, including year built, number of units, acreage, and average number of bedrooms per unit. Appendix A contains a site plan for the five properties.

**Table 1: Property Information**

<b>Property</b>	<b>Year Built</b>	<b>No. of Units</b>	<b>Average No. of Bedrooms per Unit</b>	<b>Acreage</b>
Iris Court	1948	51 (3 off ACC)	2.1	2.03
Royal Rose Court	1945	36	1.0	1.01
Royal Rose Annex	1944	9	1.0	0.27
Sumner Court	1944	8 (1 off ACC)	1.1	0.35
Cambridge Court	1948	20	2.0	0.61
<b>Total</b>		<b>124</b>	<b>1.6</b>	<b>4.27</b>

## Debt Financing

In order to obtain long-term mortgage (debt) financing from a private lender to cover the costs of the rehabilitation or redesign, three conditions must be met:

- First, it requires single-purpose entity lending. As a condition of long-term financing, the lending community will want to establish the project as a separate legal entity.
- Second, to lend to this single-purpose entity, revenues must be able to support the property's "break-even" costs. The "break-even" costs are the sum of the following: operating costs, debt service, debt coverage, and replacement reserves.
- Third, to the extent the Agency decides to "voucher out" the project and retain or recruit Section 8 voucher holders, the lender will want to be assured that the property can, indeed, retain/attract such families at rents that support the break-even costs. On the other hand, to the extent that the Agency decides to retain the project as public housing or some equivalent of project-based Section 8, the lender will require one or more of the following: (1) a long-term subsidy contract that covers the "break-even" costs, (2) the ability to exit the regulatory scheme in the event of default, or (3) a large operating loss contingency reserve.

The implications for these conditions are discussed more under the Discussion section of this report.

## Existing Capital Needs

Although under common ownership and management, and although located on adjoining sites, each of the five properties in the Iris Court Redevelopment Project was built to different (although sometimes similar) plans and operates to serve different low-income populations. A summary and description of each property follows:

- **Cambridge Court.** The only property located on the East side of North Vancouver Avenue, this development consists of a single U shaped masonry veneer building containing 20 2-bedroom apartments. It received extensive rehabilitation work in 1991, including new kitchens, site work and landscaping and roofing. Cambridge Court is presently operated under a special

program to provide housing for recovering drug and alcohol users.<sup>1</sup> A project-based Section 8 development, it is the only non-public housing property. For the purposes of this study, Cambridge Court is ranked Very Good as to condition, and Good for appearance.

- **Royal Rose Court.** Located on the most southerly parcel, Royal Rose Court consists of four masonry veneer buildings containing 36 1-bedroom apartments which are occupied mostly by elderly and disabled tenants. In 1997, this property received over \$700,000 in upgrading work, including accessibility and site work, heating, lobby and roofing upgrades. The new landscaping has been well maintained, and curb appeal is superior to both the abutting developments and to the neighborhood. This property is considered Very Good as to condition and Excellent in appearance.
- **Sumner Court and Royal Rose Annex.** Located as “matched bookends” on opposite sides of North Sumner St, these two small developments were built to similar plans for masonry veneer U shaped buildings, each including nine 1-bedroom apartments. They are no longer perfectly identical as Sumner Court has received modifications for community space, and site improvements, and landscaping varies. These developments are occupied mostly to for elderly and handicapped residents. These properties are considered to be Adequate as to both condition and appearance
- **Iris Court.** The only development in the cluster that operates primarily as family housing, Iris Court has posed a management challenge to HAP for some years. The development consists of five two-story masonry buildings originally containing 52 2-bedroom units and two 4-bedroom units. All apartments are built in a two-story townhouse configuration, and each building is clustered around a central courtyard. Some years ago, the Authority constructed play structures and concrete site furniture in these courtyards. In recent years a number of units have been converted to community and management spaces and laundry facilities. While the apartments remain comfortable and serviceable, Iris Court has received heavier use than the adjacent properties. Its condition is categorized as Fair and its appearance as Poor, based largely on the lack of sod or landscaping, and the unfortunate selection of concrete site furniture.

While the condition of these properties varies, as discussed above, all the housing is presently operating at near- or full-occupancy, and all apartments are maintained in serviceable condition. In addition to regular maintenance, each development has received some

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<sup>1</sup> The Agency also contracts with a non-profit service provided to manage this property. This paper makes no assumption regarding changing this relationship.

measure of capital improvement in recent years. These range from new roofs at Iris court, Sumner Court and Royal Rose Annex, to more extensive work at Royal Rose Court and Cambridge Court. An estimate of the existing capital needs for each property, together with a tabulation of condition and appearance, is presented in the following Table 2.<sup>2</sup>

**Table 2: Property Conditions**

<b>Development</b>	<b>Condition</b>	<b>Appearance</b>	<b>Const. Costs (per unit)</b>	<b>A&amp;E Costs (7.5%)</b>	<b>Contingency (10%)</b>	<b>Inflation (3%)</b>	<b>Total (per unit)</b>	<b>No. of Units</b>	<b>Total</b>
Iris Court	Fair	Poor	\$38,000	\$3,367	\$3,800	\$1,254	\$46,421	54	\$2,506,734
Sumner Court	Adequate	Adequate	\$20,000	\$1,500	\$2,000	\$660	\$24,160	9	\$217,440
Royal Rose Annex	Adequate	Adequate	\$20,000	\$1,500	\$2,000	\$660	\$24,160	9	\$217,440
Cambridge Court	Very Good	Good	\$2,000	\$150	\$200	\$66	\$2,416	20	\$48,320
Royal Rose Court	Good	Excellent	\$10,000	\$75	\$1,000	\$330	\$11,405	36	\$410,580
<b>TOTAL</b>							<b>\$26,567</b>	<b>128*</b>	<b>\$3,400,514</b>

\*The total unit number includes units converted to non-dwelling space and are included here for purposes of determining the total renovated space costs.

<sup>2</sup> These estimates are based on a review of current physical needs assessments of each property, coupled with visual inspections. They are adequate for planning purposes but do not replace detailed engineering studies.

## Design Issues

- In addition to building conditions, a number of site and management issues should be considered in the planning for these developments. They are as follows:
- Ten and fifteen years ago, crime was considered a major factor in the management of Iris Court. This had decreased a great deal in the past five years, but still remains a factor in the operation of this property.
- The continuation of North Sumner to North Haight Street has been closed off as part of the crime reduction effort.
- Cambridge Court feels very separate from the other developments. It is located on the other side of a major thoroughfare, operated for a different tenant population, and is too small and distant to feel part of the larger complex.
- The surrounding neighborhood consists of modest one- and one-and-one-half story single family homes, some of which are well kept but others are in fair condition.
- The Iris Court portion of the complex feels somewhat disordered. Some of this is related to the lack of landscaping and the concrete tables and benches, but it also stems from the afterthought character of the street closure, the location of the parking lot, and the apparently random location of community and office spaces.
- The existing courtyard spaces at Iris court are a strong design feature. They encourage neighbor interaction, provide for defensible space (where people can observe visitors), and allow for supervised play of young children. These areas, however, must be “treated” in any redevelopment program. The playground equipment is old and does not meet code (there must be six feet surrounding playground equipment).
- The interior apartments for all the properties are relatively modest in size and in good condition. Unlike other older public housing of that vintage, the units are not unusually small in terms of square footage nor do they suffer from poor layout, serious lack of closet space, etc.



## The Design Charrette

Three design teams were asked to consider a substantial increase in the unit count to 150 units minimum (although this criterion was later softened), as well as a shift in the bedroom mix toward larger units. As a result, most of the designs focused on demolition and new construction. The HAP has compiled the site plans and renderings from the charrette in a separate document entitled “Iris Court Design Charrette”. Common themes included:

- Several designs suggested that both Cambridge Court and Royal Rose Court remain in their current use. They are in the best condition, represent considerable recent investment, and are located so as to be less a part of the whole complex than the other properties.
- Some designs considered the character of the site as a “super block” unique for its size in the neighborhood street grid. Some suggested re-opening the street or further extending North Haight Street through the abutter’s property.
- Some designs suggested a connecting walkway to the nearby High School, running through the single-family homes behind Iris Court.
- Some plans called for higher density buildings along the Vancouver Avenue street-front.
- Some studies re-organized the space in the existing Iris Court Courtyards with better site plans and expanded porches for resident use.
- Some studies recommended homeownership options for portions of the site.

## The Management Charrette

The management experts were asked to consider two major issues: (1) how they would approach the management of this cluster of properties, and (2) what it would cost them to operate the project. The main themes that resulted from that discussion, beyond those capital and design issues mentioned earlier, were:

- Assuming that basic capital needs were corrected, the cost to operate these properties would be similar to the cost of operating other assisted housing in this market, which, excluding real estate taxes and utilities, was estimated to be in the low \$200s per unit monthly (PUM).<sup>3</sup> In other words, there were no extraordinary or unusual factors that would drive the costs of operating this property higher than what is commonly experienced, once basic capital needs were corrected (see Appendix B for further discussion on operating cost estimates).
- Relating to the above, Iris Court is an inherently manageable project. While major redesign of the property may be desirable for larger public policy reasons, e.g., neighborhood reinvestment, major redesign is not a necessary intervention to create stable, well-run assisted housing. This is unlike some HOPE VI projects around the country that are so poorly designed that they should be demolished.
- Critical to successful management is presence and accountability. The management experts felt strongly that there should be dedicated maintenance and administrative personnel assigned to the project (some also strongly preferred live-in employees). In contrast, while the Agency currently has dedicated administrative personnel, it does not have dedicated maintenance personnel (maintenance is assigned centrally). Also, the management experts indicated that they would assign far more responsibility to the housing manager, including the operating budget, and then hold that manager accountable for the performance of the property.
- There are a number of smaller interventions that would improve the general appearance and management of the property, from signage to the placement of the management office. These supplemental suggestions are included as Appendix C.

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<sup>3</sup> This does not include a HAP asset management fee, currently about \$10 PUM.

## Redevelopment Options

Essentially, there are three main redevelopment options for Iris Court and its surrounding properties – complete rehabilitation, modest redesign, and major redesign. These options are presented below and summarized in Table 3; however, they are framed by the following general recommendations.

- First, Cambridge Court and Royal Rose Court are not central to the site from a redevelopment perspective and are in very good condition with modest capital needs. In other words, while it would be helpful to continue to include these properties from a management standpoint, as well as from a financing standpoint, they do not need to be “re-worked” and any major redesign on the remainder of the site can be done independently. Also, Cambridge Court is suitably distanced from the other housing to serve its special population, which would also be difficult to relocate.
- Second, Abt does not recommend opening new streets or walkways through Iris Court. In HOPE VI projects, designers often open new streets, but this is usually done to achieve a “normal” entry on the street pattern for buildings on extremely large sites. Here, the Iris Court buildings already have a normal, and in fact a favorable, relationship to the street front. Additionally, such construction is expensive, and the abutting owner has installed razor wire on the property line and is unlikely to sell or allow use of the necessary land.
- Third, Abt does not recommend a walkway to the High School. The homeowner controlling the necessary land is unlikely to welcome this use; in fact, a short-cut could attract additional teenagers to Iris Court and would be an undesirable feature for the existing residents.
- Fourth, the current street closure should remain. Dead-end streets deter crime in that visitors are easily observed. They also reduce traffic speed so as to enhance child safety. The existing traffic island, however, is a crude solution and can be improved by a better design.

## Option I – Complete Rehabilitation

This option includes the complete rehabilitation of all the properties, essentially as they stand. Iris Court, given its current condition, would receive the largest upgrade. This option would include new site work (landscaping, treatment of play areas, etc.) and complete renovation of apartments as currently configured.

The argument for this strategy is that it is simple, economical and, given upgraded management, should be sufficient to result in quality housing. The construction cost associated with this option is estimated at \$3.4 million, or a blended \$26,567 over the 128 units (124 income-producing units).

## Option II – Modest Redesign (rehabilitation with street-end reconfiguration)

This option includes the work in the first option, but also changes the site plan at the end of the street to reduce the sense of disorder. This option would demolish four units, provide a vehicle turnaround, reorganize the parking arrangements, and replace the clumsy street closure with a better solution. The total costs of this option is also \$3.5 million, or \$29,200/unit.

The strength of this option is that it results in a much better design, for the same overall cost. The trade-off is a loss of four units.

### Option II Costs

Iris Court Rehab as in Option 1:		\$3,400,514
Add:		
Demo 4 Units and Patch	\$40,000	
Site Construction	\$200,000	
Subtotal		\$240,000
Contingency, Inflation, A&E	\$49,200	
Subtotal		\$289,000

Subtract	
Rehab 4 Units	(\$185,684)
Total Option II	\$3,504,030

### **Option III – Major Redesign (rehabilitation with demolition and new housing on corners)**

There are a number of possible major redesign configurations. Generally, this would include the demolition of Royal Rose Annex and Sumner Court on Vancouver Avenue, as well as the demolition of all or a part of Iris Court, and the construction of more dense housing in their place.

This option responds to larger policy issues. In its favor, it increases housing stock, adds density on the transportation corridor, makes a large impact on the neighborhood, and would give a sense of uniformity to the overall development. It offers the opportunity to relocate and build new community spaces and the management office, and also increases the stock of accessible units.

While these goals are worth considering, there are also drawbacks. The existing fabric on Vancouver Ave consists mostly of one-story and one-and-a-half story single-family homes, although there are higher buildings a few blocks away. The three-story model, with some flats, invariably puts some children too far from playspace and observation. The building type can be more expensive and the sites are too small to justify elevators. Also, the one-story buildings of Sumner Court and Royal Rose Annex now fit fairly well into this neighborhood. These buildings are not identified as “housing projects”, and in some ways the variety in design of the four small developments is a strength. Finally, the units to be demolished are, today, essentially sound housing.

One variant of this option has been nicely developed by the HAP staff. It demolishes twenty units in Iris court and replaces them with 17 new units surrounding a public open space. Other buildings are converted to Head Start and laundry space, and the remaining housing is renovated. Eighteen units at Sumner court and Royal Rose Annex are demolished and replaced by two, three and two story buildings containing 22 and 33 units, respectively. The resulting development, with a mixture of 62 new and 81 renovated units, could have a total construction cost of \$10.1 million, or \$70,640 for the 143 units this scheme produces.

**Option III Costs**

	<u>Units/ sf</u>	<u>Unit Cost</u>	<u>Subtotal</u>
Demo Units at Iris	20	\$8,000	\$160,000
Demo Units at Sumner and Royal Rose Annex	18	\$6,000	\$108,000
Construct New Townhouse Units at Royal Rose Annex	17	\$100,000	\$1,700,000
Rehab Units at Iris	25	\$38,000	\$950,000
Construct New Units	45	\$85,000	\$3,825,000
Rehab Community Space	7000 sf	\$40	\$280,000
Construct Office and Community Space	2500 sf	\$80	\$200,000
Rehab Cambridge Court	20	\$2000	\$40,000
Rehab Royal Rose Court	36	\$10,000	\$360,000
Site Construction			\$400,000
Subtotal			\$8,383,000
Contingency, Inflation, and A&E			\$1,718,515
<b>Total Option III</b>			<b>\$10,101,515</b>
Overall cost per unit for 143 units on site			\$70,640

**Table 3: Redevelopment Options Summary**

Option I	Option II	Option III
New site work	New site work	New site work
Renovation of all apartments	Renovation of 124 apartments	Renovation of 81apartments
	Demolish 4 units	Demolish 38 units
	Provide vehicle turnaround	Provide vehicle turnaround
	Reorganize parking	Reorganize parking
	Replace street closure	Replace street closure
		Construct 62 new units
128 units @ \$26,567/unit	124 units @ \$29,200/unit	143 units @ \$70,640/unit

## Financial Analysis

In order to determine the feasibility of utilizing conventional debt instruments to finance the redevelopment options outlined above, and informed by the HAP's experience with its Affordable Housing program, Abt made the following assumptions:

- 30-year self-amortizing loan at 6.5% interest
- A debt-coverage ratio of 1:1.15
- Vacancy Loss calculated at 7%. While this is higher than the actual historical vacancy rate for this project, a lender might require this higher amount given the absence of a "hard" 20-year subsidy contract
- All utilities project paid

- Exemption from real estate taxes
- Operating costs of \$230 PUM if conventionally-managed and \$340 PUM if Agency-managed (see Appendix B). Additionally, Abt assumed a \$10 PUM asset management fee.
- Replacement Reserves of \$500/unit annually. Actual reserve deposits in the HAP's Affordable Housing program run between \$250 to \$300 per unit per annum. This higher figure is used in that this project may not be able to take advantage of future refinancing as other HAP affordable housing projects.
- Market rents based on other HAP Affordable Housing properties, with adjustments for location and project characteristics. Appendix C discusses the source of comparables and the adjustments made. It should be noted that the market rents under Options I and II would represent about 85% of the non-utility FMR and the market rents under Option III would represent about 110% of the non-utility FMR.
- Reasonable tax credit financing fees and other soft costs, exclusive of A&E fees, of the construction budget for conventionally financed properties (higher for tax-credit properties). These development budgets are shown in Appendix D.

Based on the above assumptions, Table 4 shows how each of the three redevelopment options would fare under a debt financing model, depending on whether the property were Agency managed or conventionally managed (hence, six different scenarios). The table calculates the amount of "Supportable Debt" for each scenario. This is the amount that the property can support in debt based on the net operating income at market rent levels. This figure is then compared to the "Estimated Development Costs" for the property. A model is feasible if the estimated development costs are less than the supportable debt. Where these costs are not less than the supportable debt, the table calculates the "Capital Gap." The results are as follows:

- Option I: Rehabilitation. Using conventional debt financing, the Agency would face a modest capital gap of around \$200,000, but only if it were to operate at costs similar to those in its Affordable Housing program. If the Agency were to underwrite the project at operating costs typical of what it costs to operate public housing today, the project would face a capital gap of around \$2.0 million, or \$17,000/unit.



- Option II: Modest Redesign. The situation is essentially the same here as under Option I, except that per-unit costs are slightly higher due to the work on the street closure and the fact that these costs are spread over fewer units. Rents, however, would be the same. The capital gap is around \$350,000, or \$3,000/unit, assuming conventional management and around \$2.2 million or \$18,000/unit under Agency-management. However, if the Agency were to finance this project with 4% tax credits, it would likely raise an additional \$750,000 in equity, after syndication and other expenses. In other words, under conventional management costs, the Agency would have some \$400,000 in extra funds to re-invest in the property. These funds could be used to expand community space, capitalize a replacement reserve or other uses.
- Option III: Major Redesign. The high construction costs of major redesign – \$70,640/unit – mean that the project would need a substantial infusion of outside capital to be financially feasible, even with the higher rents commanded by this redesigned product. Assuming conventional financing, the capital gap is about \$6.5 million with private operating costs and \$8.6 million with Agency operating costs. If, however, the Agency were to use tax credits, the 4% credits would reduce this capital gap, after expenses, by \$2.75 million and the 9% credits would reduce this gap by around \$5.4 million.

**Table 4: Financial Feasibility Analysis**

	Private Operating Costs						Agency Operating Costs					
	I: Rehabilitation		II: Modest Redesign		III: Major Redesign		I: Rehabilitation		II: Modest Redesign		III: Major Redesign	
	Annual	PUM	Annual	PUM	Annual	PUM	Annual	PUM	Annual	PUM	Annual	PUM
Residential Units	124	124	120	120	143	143	124	124	120	120	143	143
Market Rent	\$796,757	\$535	\$777,590	\$540	\$992,243	\$578	\$796,757	\$535	\$777,590	\$540	\$992,243	\$578
Vacancy Loss (7%)	(\$55,773)	(\$37)	(\$54,431)	(\$38)	(\$69,457)	(\$40)	(\$55,773)	(\$37)	(\$54,431)	(\$38)	(\$69,457)	(\$40)
Effective Gross Income	\$740,984	\$498	\$723,159	\$502	\$922,786	\$538	\$740,984	\$498	\$723,159	\$502	\$922,786	\$538
Operating Expenses	(\$342,240)	(\$230)	(\$331,200)	(\$230)	(\$240,120)	(\$230)	(\$505,920)	(\$340)	(\$489,600)	(\$340)	(\$583,440)	(\$340)
Asset Management Fee	(\$14,880)	(\$10)	(\$14,400)	(\$10)	(\$17,160)	(\$10)	(\$14,880)	(\$10)	(\$14,400)	(\$10)	(\$17,160)	(\$10)
Replacement Reserve (\$500/yr)	(\$62,000)	(\$42)	(\$60,000)	(\$42)	(\$71,500)	(\$42)	(\$62,000)	(\$41.67)	(\$60,000)	(\$42)	(\$71,500)	(\$42)
Net Operating Income	\$1,160,104	\$216	\$1,128,759	\$221	\$1,251,566	\$256	\$1,323,784	\$106	\$1,287,159	\$111	\$1,594,886	\$146
Debt Coverage Ratio (1.15)	\$279,881.78	\$188	\$276,138.13	\$191.76	\$382,127.35	\$223	\$137,551.35	\$92	\$138,399.00	\$96	\$217,988.22	\$127
	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>	<u>Per Unit</u>	<u>Total</u>	<u>Per Unit</u>
Supportable Debt	\$3,690,027	\$29,758	\$3,640,670	\$30,339	\$5,038,057	\$35,231	\$1,813,509	\$14,625	\$1,824,685	\$15,206	\$2,874,008	\$20,098
Estimated Development Cost	\$3,876,373	\$31,261	\$3,988,855	\$33,240	\$10,853,307	\$80,517	\$3,876,373	\$31,161	\$3,988,855	\$33,260	\$10,853,307	\$80,517
Capital "Gap"	\$186,346	\$1,503	\$348,185	\$2,902	\$6,475,874	\$45,286	\$2,050,454.74	\$16,536	\$2,166,515.08	\$18,054	\$8,639,923.08	\$60,419

## Discussion

The purpose of this paper has been to provide a preliminary assessment of the feasibility of using debt financing for the redevelopment of Iris Court and its four surrounding properties. Unlike a private owner, with a narrowly focused bottom line, the HAP has a number of different considerations for the redevelopment of this property cluster. Is the goal simply to have good quality and well managed housing, or is the goal to contribute to the larger redevelopment of the Humboldt neighborhood? Is it important to expand the housing stock on this site, and is it necessary and important to knit together the five different developments? Do these goals justify some measure of demolition and reconstruction and at what cost should these larger goals be pursued?

Based on this preliminary analysis, the Agency is presented with clear choices.

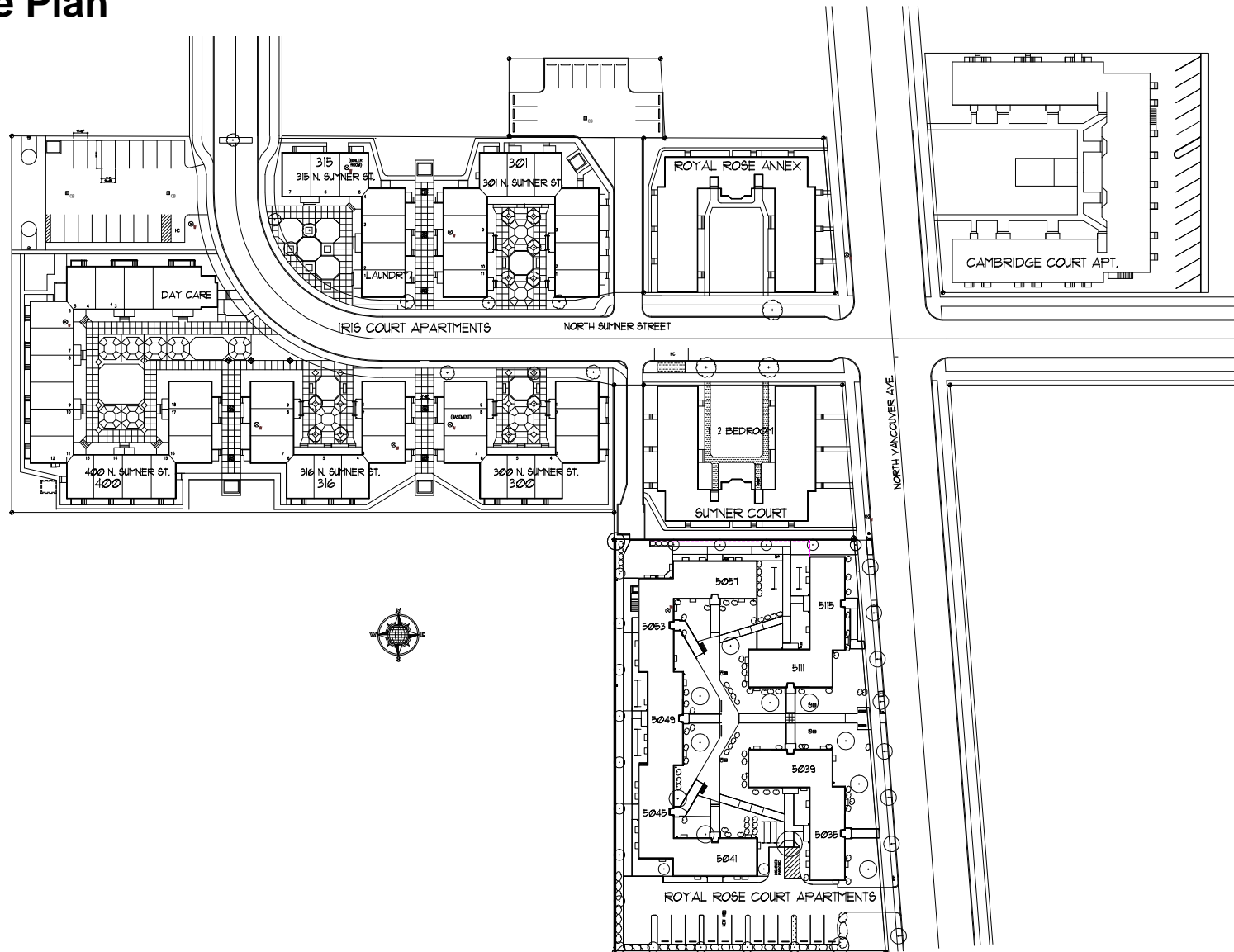
- A rehabilitated Iris Court is operationally feasible. It is not necessary to undertake major redesign to create a stable, well-run property. It also appears that this option can be financed with traditional debt instruments with only a modest capital contribution, but only at operating cost levels similar to that experienced in the HAP's Affordable Housing properties. The resulting product, although not new, would provide good quality housing.
- Modest redesign is also feasible with a modest capital infusion or with 4% tax credits, but only, again, with operating costs consistent with the HAP's Affordable Housing properties.
- Major redesign, even with conventional operating costs, would not be feasible without a substantial capital subsidy; however, with 9% credits the project would need only about \$1.0 million in capital subsidy, but, again, only with conventional operating costs. However, there is an opportunity cost with this option. Major redesign is a far more complicated development effort and will be organizationally more taxing. Also, given the extremely competitive nature of 9% credits, the Agency must decide whether this property is of higher priority than other planned redevelopment projects.

Finally, the public housing regulatory scheme does not generally provide for debt financing and single-purpose entity lending. Therefore, the Agency has three major strategies to pursue if it wants to finance these properties in this way:

- First, it can decide to “voucher out” the four public housing properties. This is clearly possible under the MTW program. In essence, the units would no longer be considered public housing and all public housing subsidies relating to these units (operating, capital, and drug elimination grant) would be exchanged for an allocation of Section 8 Housing Choice Vouchers. Then, the Agency could either “project-base” the vouchers to the project, as permitted under its MTW authority, or allow the units to be “free-standing”, in which case the existing residents would be awarded vouchers but would not be required to use those vouchers only for those apartments. Residents could take their vouchers anywhere program rules allow. As existing voucher-holders moved, the vacated apartments would either be rented by other voucher-holders or by market rate tenants. Once converted or vouchered-out, the property would no longer be governed by public housing regulations. Other than abide by the same Housing Assistance Payments contract entered into by other landlords in the voucher program, this converted property would have no regulations, per-se. Since the lending community will underwrite the project based on the anticipated market rents for the property, the choice of whether the vouchers are “free-standing” or “project-based” would not be driven by any lending considerations, but purely on the preference of the Agency.
- Second, it could request HUD, under its MTW flexibility, to convert to a more formal federally-assisted Section 8 project. Essentially, the Agency would be asking to switch from being a public housing property to, say, a Section 8 New Construction property. There is no formal mechanism to effect such a conversion today; however, there is growing interest among policy makers in finding alternative ways of financing public housing capital improvements and, under the spirit of MTW, such a conversion might be possible.
- Third, the Agency could remain under the public housing program and ask for permission/waiver from HUD to mortgage the property. This option would raise a number of obstacles. First, HUD has not approved a project of this nature in the past. Second, the MTW authority currently runs for five years and the financing will likely run for 30 years. Third, since the project will remain as public housing, the lender will demand (1) the guarantee of a long-term subsidy contract to assure that resources will be there over the long term to pay costs, (2) the ability to exit from the project in the event of default and have principal repaid in full, or (3) a quite large operating deficit reserve account that gets capitalized at the time of financing.

# Appendix A

## Site Plan



## Appendix B

### Discussion of Estimated Operating Costs

GSD examined four different sources of operating costs for the “new” Iris Court Redevelopment Project. All of the figures below are net of utilities and taxes.

- FHA assisted housing. Harvard University’s Graduate School of Design has tabulated operating costs for FHA assisted properties in the Portland MSA. For FY 1998, the median operating cost for 54 properties was \$213 PUM.
- HAP Affordable Housing Program. The HAP owns approximately 3,000 “affordable” housing units, all of which are privately managed. These properties consist of a mix of deep subsidy and shallow subsidy programs. The median operating cost for these properties in FY 2000 was \$189-\$218.
- Expert Opinion. The management experts participating in the Management Charrette on October 29, 2001, indicated that they would expect a renovated Iris Court Redevelopment Project to operate in the \$220 to \$240 PUM range.
- Existing Costs. The HAP currently spends an average, inclusive of overhead and centralized costs, around \$340 PUM to operate its public housing program. This number was derived from HAP’s budget and presented to the agency during a presentation in August 2001 on operating costs. The actual number derived was \$383; however, this number was reduced to an approximation of \$340 after further discussions with the agency related to allocating overhead costs.

## **Appendix C**

### **Supplemental Management Improvements**

The HAP invited a number of private operators of affordable housing to a meeting on October 29, 2001, to discuss the management of Iris Court Redevelopment Project. As discussed earlier in this document, major themes included issues related to design and capital needs (landscaping, play lots, parking, plumbing, etc.), management presence, accountability, and delegation of authority to the on-site manager. Supplemental suggestions included:

- There are two separate day care programs operating at Iris Court. Although they provide a needed service, they (1) occupy valuable space that could otherwise be used for a community room, (2) create traffic and parking problems, and (3) are the cause of visual clutter. It was suggested that the number of programs be reduced to one or that the programs be relocated to an area of the site that would be more fitting.
- The site office is not visible and its location is not readily identified.
- Current property signage is inadequate.
- Increase the amount of exterior building and common area lighting. Also, all exterior lighting should be replaced with energy efficient vapor lights.

## Appendix D

### Estimate of Market Rents

In order to estimate the market rents under the three redevelopment options, Abt consulted with local HAP staff as well as the property management firms participating in the charrettes. The Humboldt neighborhood has among the lowest rent levels in the city. While the neighborhood is currently experiencing some modest reinvestment, it is expected that it would be some time before rents in this neighborhood could approach FMRs, even with the anticipated opening of a light rail stop in the neighborhood in the near future.

Rents in the HAP's bond-financed and tax credit properties vary widely depending on location and building type. Abt and HAP staff estimated the following figures based on the relative market strength of the Humboldt neighborhood and HAP's current affordable housing stock:

Option I and II: .73/psf  
Option III: .92/psf

This translates into the following rent ranges based on an average square foot size for the five properties:

**Option I and II:**

1 Bedroom averaging 547 sf: \$399  
2 Bedroom averaging 843 sf: \$615  
4 Bedroom averaging 1750 sf: \$1278

**Option III:**

1 Bedroom averaging 547 sf: \$503  
2 Bedroom averaging 843 sf: \$776  
4 Bedroom averaging 1750 sf: \$1610

For comparison purposes, current FMRs for the area are as follows:

<b>Unit Size</b>	<b>FMR</b>	<b>Section 8 Utility Allowance</b>	<b>Non-Utility FMR</b>
1	\$606	\$85	\$521
2	\$747	\$101	\$646
4	\$1,127	\$143	\$984



# Appendix E

## Development Budgets

		Option I	Option II		Option III		
		Conventional	Conventional	4%	Conventional	4%	9%
Units							
<b>Hard Costs</b>							
Construction		\$3,163,269	\$3,259,563	\$3,259,563	\$9,395,349	\$9,395,349	\$9,395,349
<b>Soft Costs</b>							
Architecture&Engineering	7.50%	\$237,245	\$244,467	\$244,467	\$704,651	\$704,651	\$704,651
Survey & Permits		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Environmental		\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Legal		\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Title & Recording		\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Audit/Cost Cert		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Marketing & Rent-up		\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Relocation		\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Market Study/Appraisal		\$7,000	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
Financing Costs (Conv.)		\$129,150	\$134,576	\$0	\$63,473	\$0	\$0
Financing Costs (Bond)		\$0	\$0	\$211,477	\$0	\$277,093	\$357,733
FHA Fees/MIP		\$62,692	\$62,692	\$0	\$186,204	\$0	\$0
Tax Credit Fees		\$0	\$0	\$40,000	\$0	\$40,000	\$40,000
Syndication Expenses		\$0	\$0	\$30,000	\$0	\$30,000	\$30,000
Capitalized Reserves/Initial Op Res		\$0	\$0	\$383,634	\$0	\$451,626	\$451,626
<b>Subtotal Soft Costs</b>		\$591,087	\$603,735	\$1,071,578	\$1,116,328	\$1,665,370	\$1,746,010
Soft Cost Contingency/Tax Credit	5.0%			\$53,579		\$83,269	\$87,301
Construction Loan Interest	6.5%	\$122,016.58	\$125,557.19	\$140,762.09	\$341,629.51	\$359,473.37	\$362,094.17
<b>Subtotal Total Costs</b>		\$3,876,373	\$3,988,855	\$4,525,482	\$10,853,307	\$11,503,461	\$11,590,754
Developer Fee/Overhead	10.0%			\$452,548		\$1,150,346	\$1,159,075
<b>Total Development Cost</b>		\$3,876,373	\$3,988,855	\$4,978,030	\$10,853,307	\$12,653,807	\$12,749,829
LIHTC Basis				\$4,415,452		\$11,779,488	\$11,833,174
LIHTC Equity - 4%	20.0%			\$883,090		\$2,355,898	
LIHTC Equity - 9%	45.0%						\$5,324,928
Equity After Defer 90% Dev. Fee				\$1,290,384		\$3,391,209	\$6,368,096